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106TH CONGRESS

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HOWARD ROSEN
STAFF DIRECTOR

June 1, 1999

Recent Developments in the US Economy

Dear Colleague:

Attached is a summary of recent developments in the US economy, presented with graphs. This summary confirms that the economy is doing quite well, but also points to some challenges on the horizon. Consider:

- The economy grew by 4.5 percent during the first quarter of 1999. Average annual economic growth was 3.1 percent between 1992 and 1998.

- The unemployment rate is currently in the range of 4.2 to 4.3 percent. It averaged 4.5 percent in 1998 and has been below 5 percent in every month over the last 2 years.

- Between January and March, inflation rose by an annual rate of approximately 1.6 percent -- the inflation rate for 1998. Increases in crude oil and gasoline prices pushed up inflation in April.

- The economy has generated close to 16 million jobs since 1992; more than 80 percent of those jobs have been in the service sector.

- Real average weekly earnings have increased by approximately 6½ percent since 1992.

- The merchandise trade deficit is likely to reach $300 billion this year, or approximately 3.3 percent of GDP.

I am also attaching a recent Washington Post article which documents the economic achievements during Robert Rubin's tenure as Treasury Secretary.

Please contact Howard Rosen, the Minority Staff Director, if you have any questions or comments on this material.

Sincerely,

Pete Stark, MC

Ranking Member

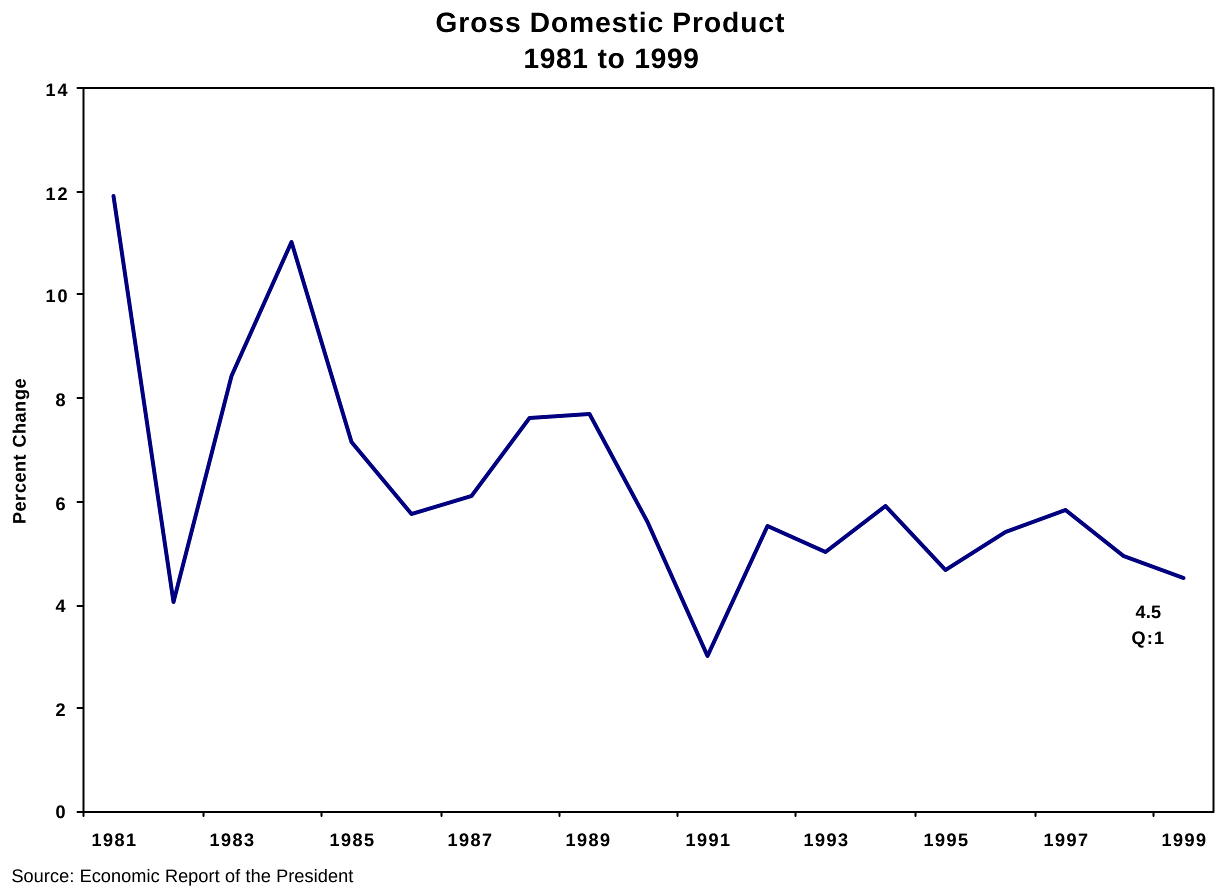
Recent Developments in the US Economy

Prepared by Minority Staff, Joint Economic Committee
May 1999

The US economy has just begun its ninth year of expansion, making this the longest peace-time expansion.

Real economic growth has averaged 3.1 percent annually since 1991. It was 3.9 percent in 1998, and 4.5 in the first quarter of 1999.

Many analysts expect economic growth to begin declining slightly over the next year.



The unemployment rate

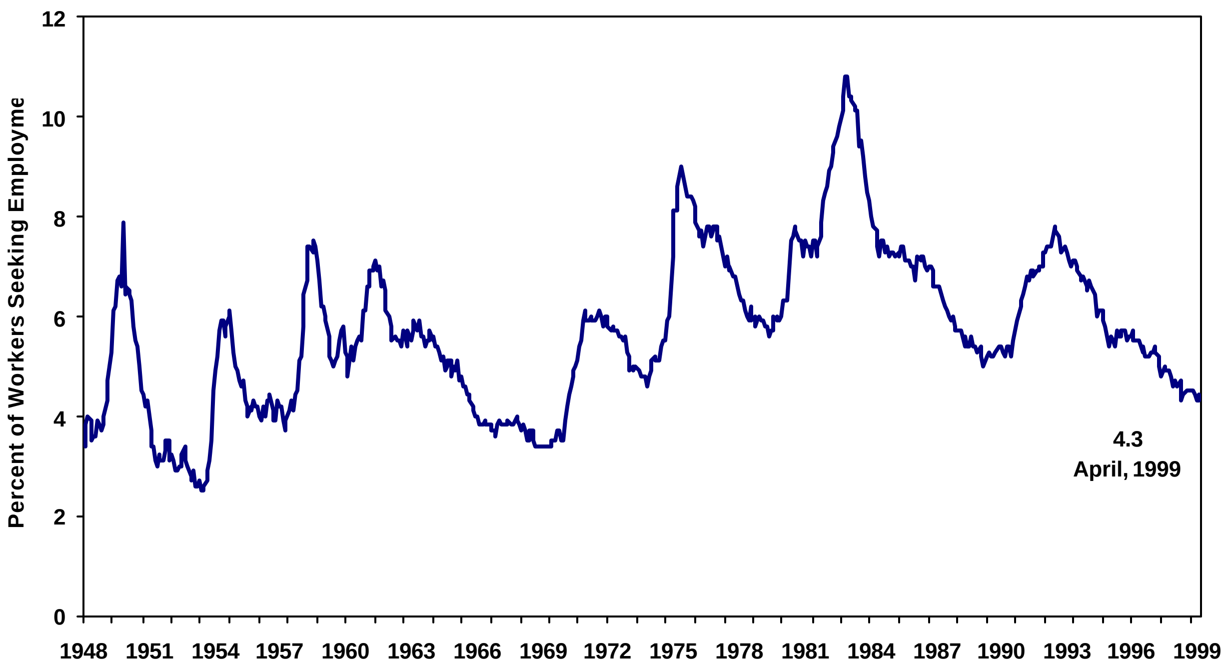
The unemployment rate for March 1999 -- 4.2 percent -- was the lowest rate since the early 1970s. It rose slightly to 4.3 percent in April.

The average unemployment rate in 1998 was 4.5 percent.

The monthly unemployment rate has been below 5 percent during every month over the last 2 years.

The unemployment rate in the United States is currently lower than that in Japan.

Unemployment Rate
1948 to 1999

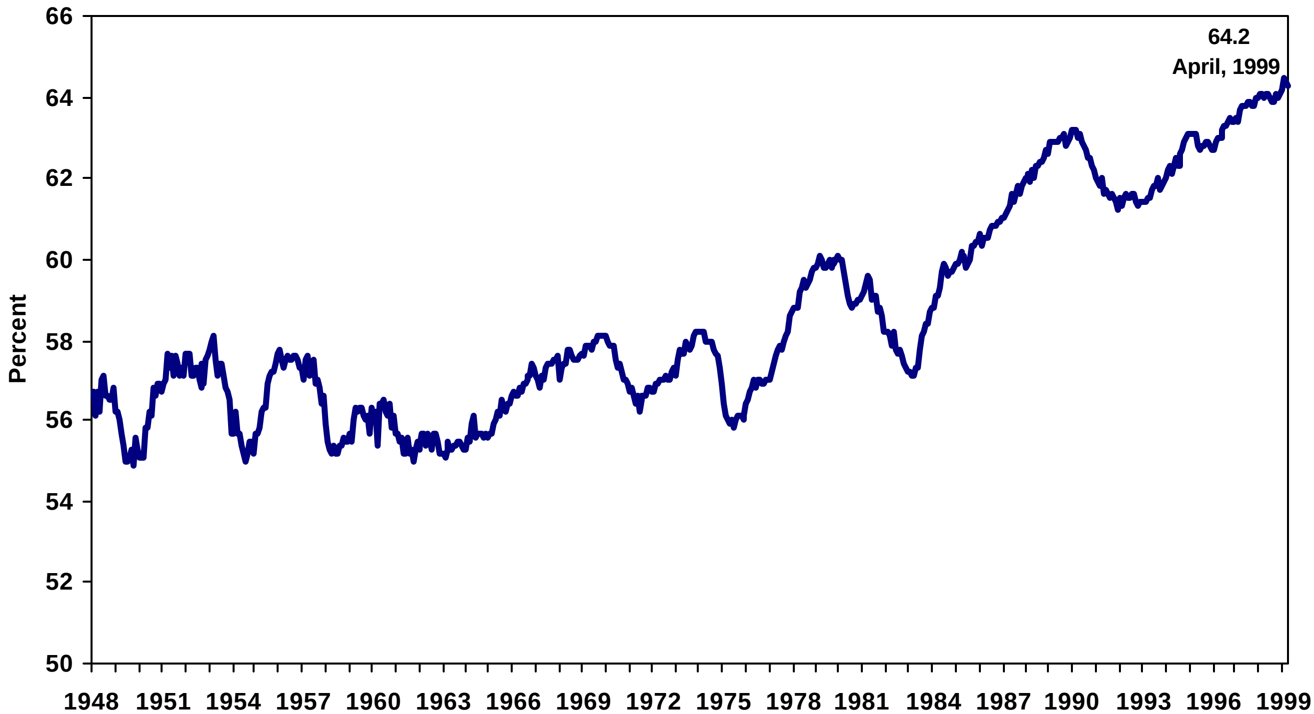


Source: Bureau of Labor Statistics

More Americans are currently working than ever before.

The ratio of people employed to the total population is at its highest rate in recent US history. Approximately **b** of the population is currently employed.

Employee-Population Ratio: All Workers
1948 to 1999



Note: Data are seasonally adjusted. Beginning in 1990, data reflect 1990 census-based population controls, adjusted for the estimated undercount.
Source: Bureau of Labor Statistics, Current Population Survey

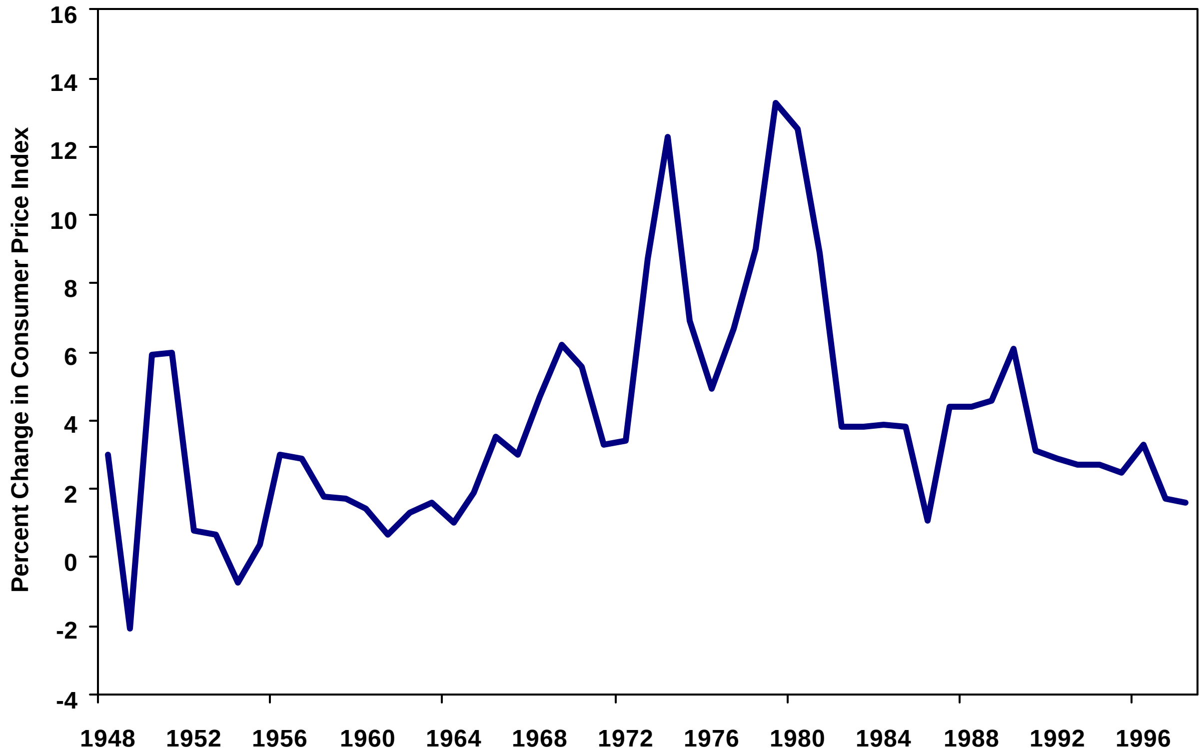
Inflation has also fallen to its lowest rate in almost 30 years — despite continued declines in the unemployment rate.

Inflation in 1998 was 1.6 percent.

During the first four months of 1999, inflation rose by an annual rate of 3.3 percent; this was primarily due to an increase in crude oil prices.

The recent improvement in wages has not appeared to place upward pressure on inflation.

US Inflation Rate
1948 to 1998

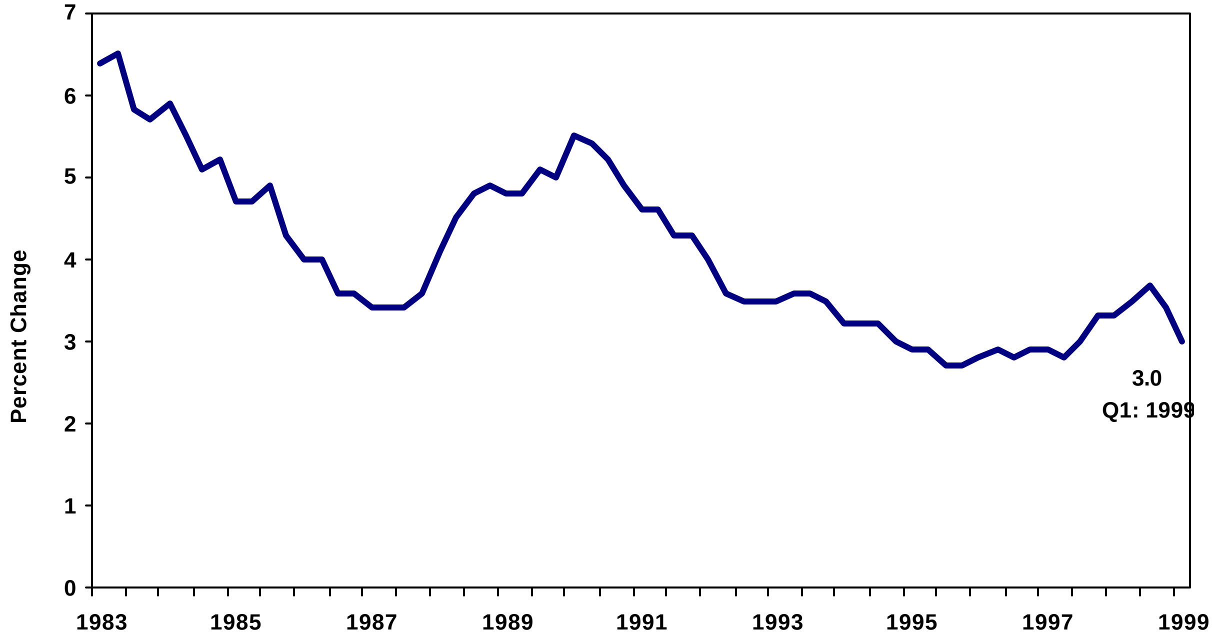


Source: Bureau of Labor Statistics

Employment costs remain low despite recent increases

The Employment Cost Index (ECI), which measures the costs to employers of hiring a worker, remains relatively low, despite recent increases. The ECI includes the cost of wages and benefits.

Employment Cost Index



Note: Not Seasonally Adjusted. Includes all civilan workers.
Source: Bureau of Labor Statistcs

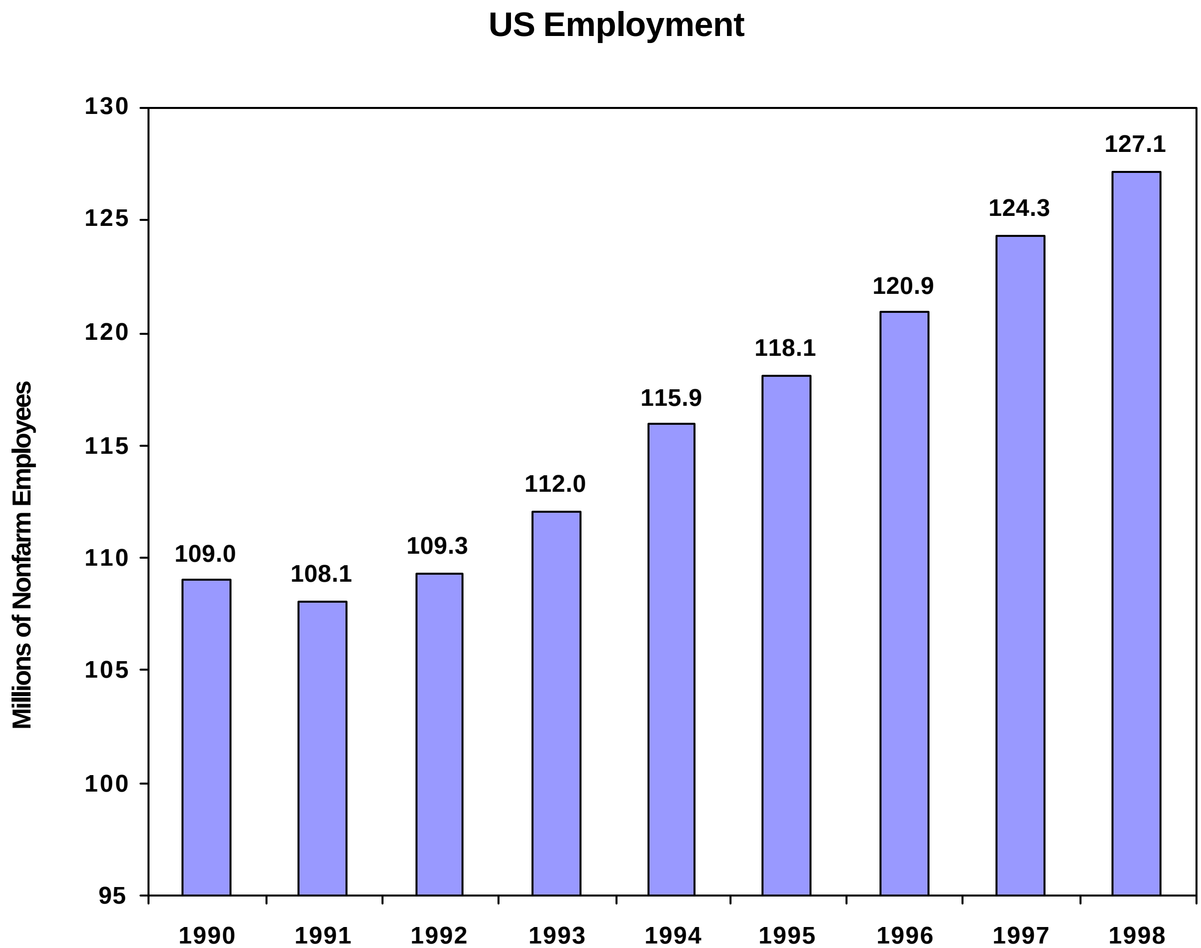
Nonfarm employment grew by 19 million between 1992 and March 1999, adding, on average, 2.9 million jobs annually and 239,000 jobs per month.

On average, the economy is creating, on net, 5½ jobs per minute.

It is important to note that the increase in employment is a NET figure, i.e. it reflects the change in total employment, not the gross number of new jobs created or eliminated.

For example, it is estimated that for every 3 million increase in employment, approximately 13 million gross new jobs are created and 10 million gross jobs are lost.

The US economy currently eliminates more jobs in a year than Europe has created over the last decade.



Source: Bureau of Labor Statistics

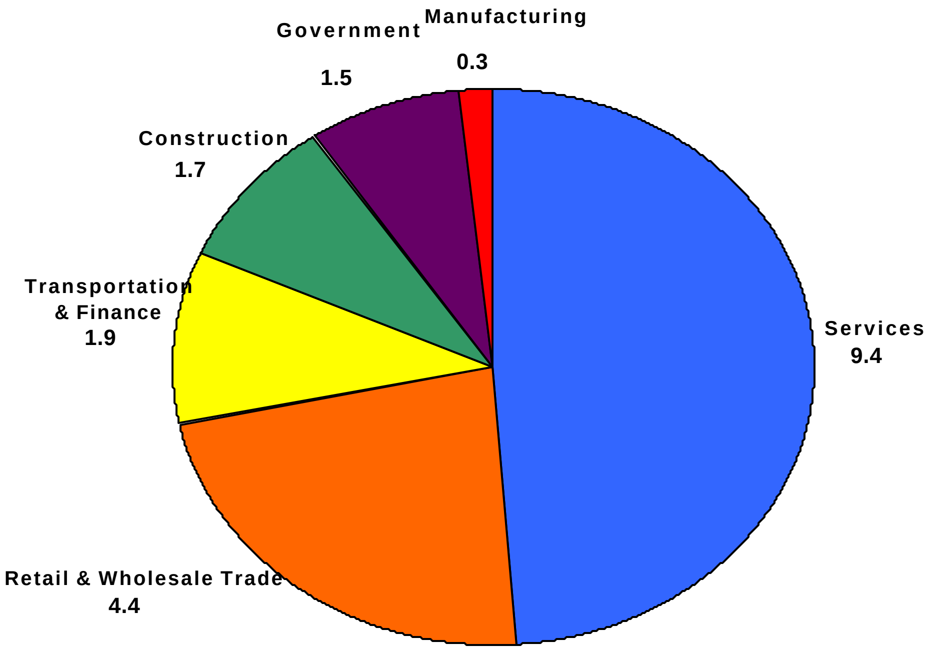
Distribution of the 19 million net new jobs created since 1992:

9.4 million in traditional services
4.4 million in wholesale and retail trade
1.9 million in transportation and finance
15.7 million in all services (83 percent of the 19 million jobs created)
1.7 million in construction
1.5 million in government, despite no increase in federal government employment

330,000 in manufacturing. Manufacturing employment increased by 725,000 jobs between 1992 and March 1998.

Half of that was lost over the last year, primarily due to the financial crisis in the Far East.

Growth in Employment by Industry
1992 to 1999
(millions of net new jobs)



19 million net new jobs were created between 1992 and March 1999.

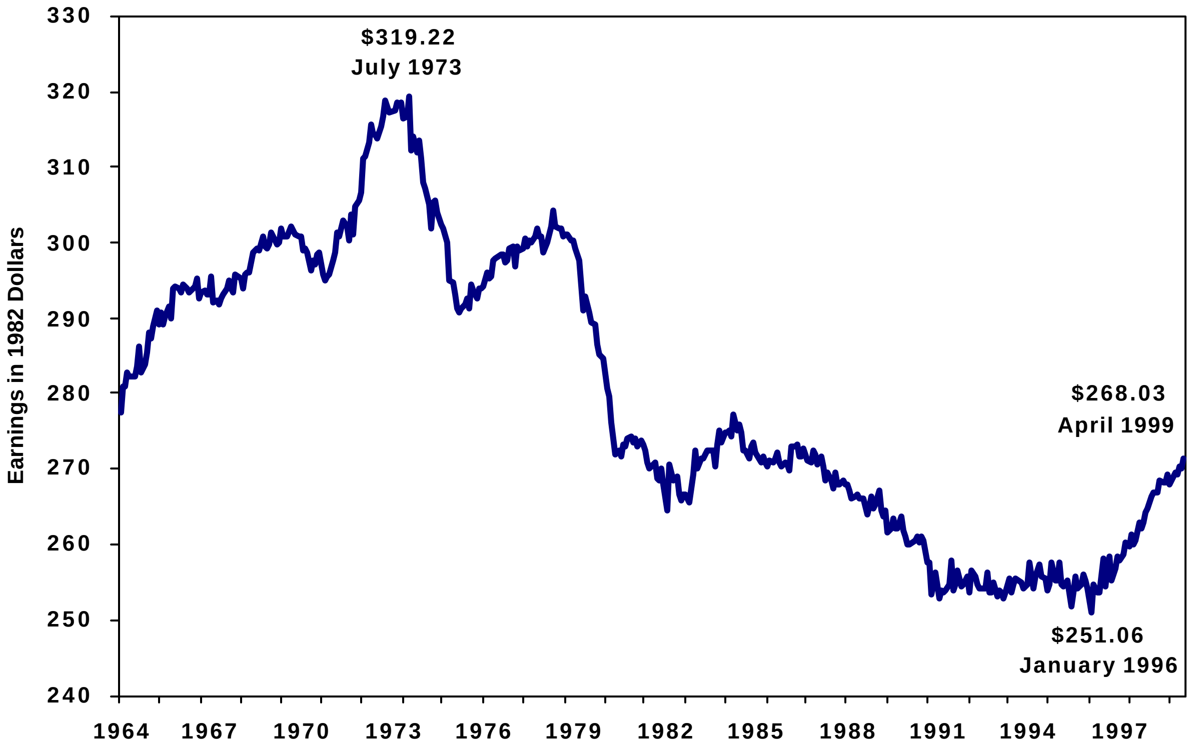
Source: Bureau of Labor Statistics

Real average weekly earnings are rising.

Average weekly earnings have increased by 6½ percent over the last 6 years, averaging approximately a 1 percent gain per year.

Weekly earnings did not begin increasing until halfway into the current recovery. Despite recent increases, real weekly earnings remain below their pre-1980 levels.

Average Weekly Earnings
1964 to 1999



Source: Bureau of Labor Statistics

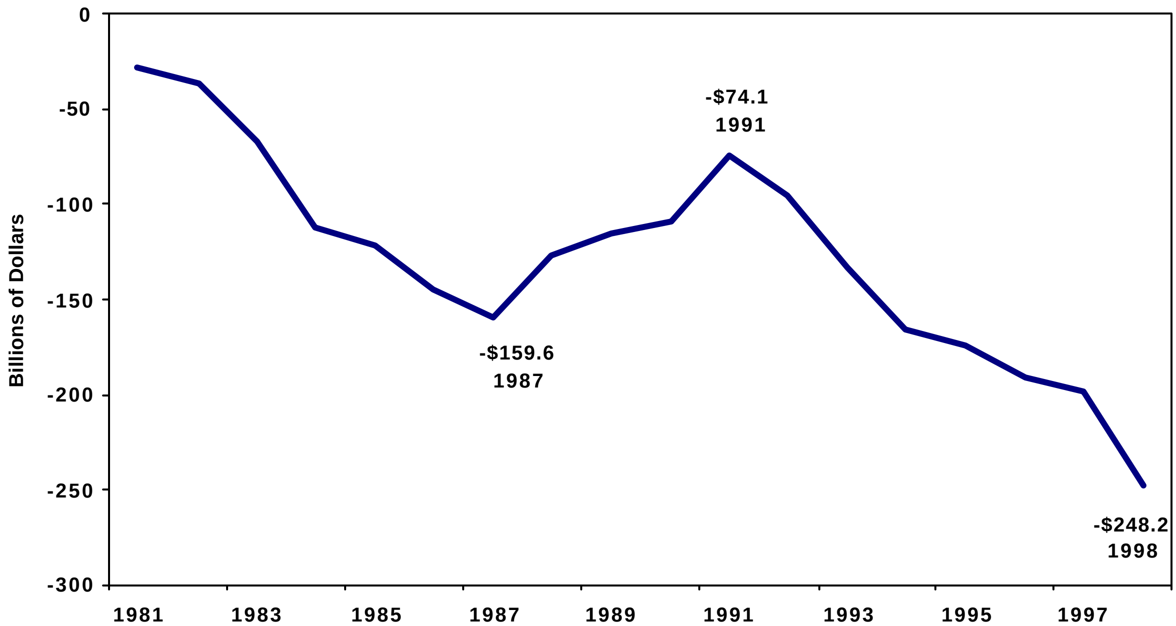
The US trade deficit continues to widen, despite other favorable developments in the US economy.

A combination of factors — the East Asian financial crisis, slow growth in the industrialized countries and the strength of the US dollar — have contributed to widening the merchandise trade deficit.

The merchandise trade deficit in 1998 was close to $250 billion. Initial monthly reports suggest that the deficit can be expected to grow in 1999.

Although the *absolute value* of the deficit is large, in historic terms, the trade deficit as a percent of GDP remains below that experienced in 1987--when similar conditions resulted in a record high trade deficit. This is because the economy has been growing faster than the trade deficit. This relationship could change over the coming year.

US Merchandise Trade Deficit
(Balance of Payments Basis)



Source: Economic Report of the President

The growing trade deficit reflects jobs loses in the manufacturing sector.

On the other hand, the trade deficit may be currently serving as a "safety valve," preventing the economy from over-heating.

Factors behind the recent favorable performance of the US economy include fortunate timing, public and private actions and good luck.

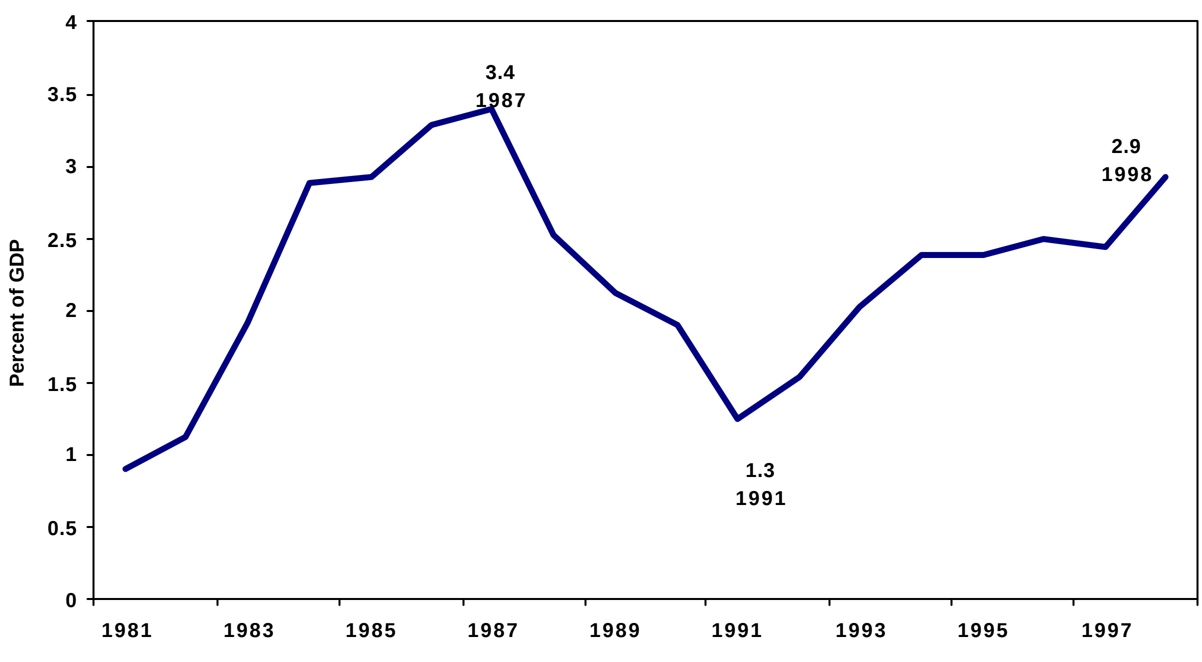
1. Business cycle: The US economy remains on the positive side of the business cycle. Over the last few cycles, recessions have been getting shorter and recovery periods have been getting longer.

2. Public policy: The most important US economic development over the last decade has been the elimination of the federal budget deficit, which resulted from discrete public policy choices. More sound fiscal policy has allowed monetary policy to be more flexible, thereby enabling the economy to continue to grow.

3. Private investment: After suffering a decline, private investment has recently recovered. Investment in plant, equipment, research and development help raise productivity, which in turn allows living standards to rise and the economy to grow.

4. Productivity: Recent investments in information technology and human capital (through education and training) have helped raise US productivity.

US Merchandise Trade Deficit as a Percent of GDP
(Balance of Payments Basis)



Source: Economic Report of the President

In addition, productivity gains have also resulted from structural changes in the labor market over the last 20 years.

5. Competition

    deregulation

    globalization

    competitiveness debate

6. Most external shocks have been positive

    globalization

    East Asian financial crisis

    slow economic growth abroad

    US trade deficit

7. Capital markets